



**Annual Reporting for High-Cost Recipients  
47 C.F.R. §54.313(a)(1) through (a)(6) and (h)  
Union Telephone Company**

**PROGRESS REPORTING – §54.313 (a)(1)**

A progress report on five-year service quality improvement plan pursuant to §54.202(a), including maps detailing its progress towards meeting its plan targets, an explanation of how much universal service support was received and how it was used to improve service quality, coverage, or capacity, and an explanation regarding any network improvement targets that have not been fulfilled in the prior calendar year. The information shall be submitted at the wire center level or census block as appropriate;

**Our main focus is to continue our infrastructure build out in licensed areas. Our goal is to have service throughout the entire state of license area. In addition to our new site build out, Union is also upgrading the equipment as new technology or services become available, which includes upgrading and installing the next generation of equipment to provide higher bandwidth data services. We have just finished our initial deployment of 55 HSPA (3G) base stations in our network of 360+ sites. For 2012, Union is concentrating on starting our 4G deployment and brining in a second network vendor to better meet the needs of our consumers. Union will continue to expand 3G and 4G services to everyone in our existing coverage area.**

**For quality of service Union has upgraded the equipment to maintain the best available quality of service with the latest technological devices and services. Union continually works on upgrading our capacity and network elements to prevent blockages and dropped handoffs. Union is adding new sites to ever expand our service footprint and to prevent dropped calls and other QOS related customer impacts. Union is continuing our capacity improvements in the back haul portion of our network to ensure that the company can provide our customer base with expanding data demands.**

**Union is in the process of upgrading our ability to monitor the overall network performance. We are continually looking at ways to improve the network performance and in turn the customer experience. In order to do so, Union finds that we have to upgrade the network monitoring system about every 3 to 4 years to keep ourselves current and up to date with the latest technologies and services.**

**We also have plans to continue building redundancy into our network. In order to have a reliable network it is necessary to invest in plant and incur higher expenses. These investments are also necessary to provide access and capacity to telecommunications and information services including interexchange services and advanced telecommunication and information services. We are working diligently to build a fully geographical redundant network to enhance the overall reliability of the**

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Union Telephone Company**

**network. This redundant network is also using a 2<sup>nd</sup> vendor to better ensure network diversity and better economical scale by removing a major single source network component. It is our goal that these services are reasonably comparable to those provided in urban areas and are available at rates reasonably comparable to rates charged for similar services in urban areas. Without the benefit of high cost support, Union would not be able to make these investments and provide the quality of service it currently does.**

**Please see Attachment 1 reviewing the amount of Federal High-Cost Support received in 2011 and similarly the expenditures supported by the Federal funding. Also attached, Attachment 2 details planned capital expenditures for both Union Telephone and Union Cellular. The exhibits outline the company's plan to improve coverage, voice and data quality, network capacity, and redundancy throughout the network. The company is investing over \$10,000,000 in 2012 on an IP switch. A new billing system will begin to be installed in 2012 with full implementation in 2013. Completion of Phase III E911 and new software is anticipated for 2013/2014. Computers, vehicles, and test gear expenditures are also planned. Over the next three years Union Cellular intends to invest over \$56,600,000 in capital investments.**

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Union Telephone Company**

**OUTAGE REPORTING – §54.313 (a)(2)**

Detailed information on any outage in the prior calendar year, as that term is defined in 47 C.F.R. 4.5, of at least 30 minutes in duration for each service area in which an eligible telecommunications carrier is designated for any facilities it owns, operates, leases, or otherwise utilizes that potentially affect (i) At least ten percent of the end users served in a designated service area; or (ii) A 911 special facility, as defined in 47 C.F.R. 4.5(e). 47 C.F.R. §54.313(a)(2).

Detailed Outage Information for 2011						
Date of Outage	Time of Outage	Description of Outage and Resolution	Particular Services Affected	Geographic Areas Affected	Steps Taken to Prevent Future Recurrences	Number of Customers Affected

**There were no outages to report for Union Telephone Company in 2011.**

**Annual Reporting for High-Cost Recipients  
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Union Telephone Company**

**UNFULFILLED SERVICE REQUESTS – §54.313(a)(3)**

The number of requests for service from potential customers within the recipient's service areas that were unfulfilled during the prior calendar year. The carrier shall also detail how it attempted to provide service to those customers.

**There were no unfilled requests for service during calendar year 2011.**



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Union Telephone Company**

**NUMBER OF COMPLAINTS PER 1,000 CONNECTIONS – §54.313(a)(4)**

The number of complaints per 1,000 connections (fixed or mobile) in the prior calendar year.

**During calendar year 2011, Union Telephone Company received 0.12 complaints per 1,000 working access lines. This totaled 5 Better Business Bureau complaints: 4 regarding early termination fees or final bills and 1 was a phone issue. However, there were no PSC complaints in 2011.**

**Annual Reporting for High-Cost Recipients  
47 C.F.R. §54.313(a)(1) through (a)(6) and (h)  
Union Telephone Company**

**§54.313(a)(5) – COMPLIANCE WITH SERVICE QUALITY STANDARDS AND CONSUMER PROTECTION RULES**

*Service Quality Standards and Consumer Protection Rules Annual Certification*

Christopher Reno	Director of Accounting	Union Telephone Company
Printed Name of Officer	Title of Officer	Company Name

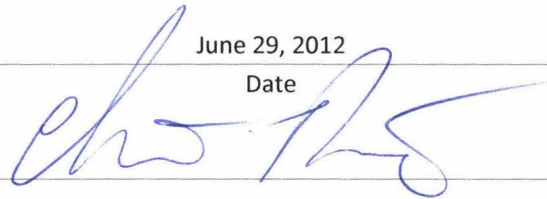
I am authorized to provide this certification on behalf of the Company. I hereby certify that the Company is in compliance with applicable service quality standards and consumer protection rules.

Executed on

June 29, 2012

Date

Signature



Christopher Reno

Printed/Typed Name

**Annual Reporting for High-Cost Recipients  
47 C.F.R. §54.313(a)(1) through (a)(6) and (h)  
Union Telephone Company**

**§54.313(a)(6) – ABILITY TO FUNCTION IN EMERGENCY SITUATIONS**

*Ability to Function in Emergency Situations Annual Certification*

Christopher Reno	Director of Accounting	Union Telephone Company
Printed Name of Officer	Title of Officer	Company Name

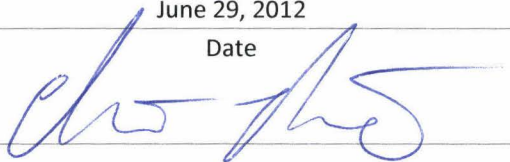
I am authorized to provide this certification on behalf of the Company. I hereby certify that the Company is capable of functioning in emergency situations. The Company has a reasonable amount of back-up power to ensure functionality without an external power source, is able to reroute traffic around damaged facilities, and is capable of managing traffic spikes resulting from emergency situations.

Executed on

June 29, 2012

Date

Signature



Christopher Reno

Printed/Typed Name



**Annual Reporting for High-Cost Recipients  
47 C.F.R. §54.313(a)(1) through (a)(6) and (h)  
Union Telephone Company**

**ADDITIONAL VOICE RATE DATA – §54.313(h)**

All incumbent local exchange carrier recipients of high-cost support must report all rates for residential local service, as well as state fees as defined pursuant to §54.318(e) of this subpart, that are below the local urban rate floor as defined in §54.318 of this subpart, and the number of lines for each rate specified. Carriers shall report lines and rates in effect as of June 1.

**As of June 1, 2012, Union Telephone Company did not have any rates for residential local service, as well as state fees as defined pursuant to §54.318(e), that are below the local urban rate floor as defined in §54.318.**

# UNION TELEPHONE COMPANY (ILEC AND CLEC)

## Attachment 1

### 2011 Total Amount of Federal High-Cost Support Received – All States

	<u>ILEC</u>	<u>CLEC</u>
High Cost Loop Support	\$708	\$623,836
Safety Net Additive Support	0	21,417
High Cost Model Support	0	1,369,819
IAS Support	0	481,381
ICLS Support	928,796	3,235,200
LSS Support	1,600,297	1,350,989

### 2011 Expenditures for Provision Maintenance, and Upgrading of Facilities and Services Supported by Federal Universal Service Funding – All States

	<u>ILEC</u>	<u>CLEC</u>
Plant Specific Operations	\$2,112,885	\$12,749,206
Plant Non-Specific Operations	233,358	8,975,611
Customer Operations Expenses	373,072	8,548,953
Corporate Operations Expenses	1,291,558	5,261,861
Plant Additions	783,786	8,849,869

### 2012 Total Amount of Federal High-Cost Support Received (05/31/12-YTD All States)

	<u>ILEC</u>	<u>CLEC</u>
High Cost Loop Support	\$0	\$59,043
Safety Net Additive Support	0	1,963
High Cost Model Support	0	116,961
FHC Support	0	2,599,084
ICLS Support	729,705	303,115
LSS Support	491,750	440,054

### 2012 Expenditures for Provision Maintenance, and Upgrading of Facilities and Services Supported by Federal Universal Service Funding (05/31/12-YTD Un-allocated ILEC and CLEC combined).

	<u>Combined</u>
Plant Specific Operations	\$7,011,839
Plant Non-Specific Operations	4,820,294
Customer Operations Expenses	2,580,790
Corporate Operations Expenses	2,638,673
Plant Additions	4,691,851

### 2012 Projected Expenditures for Provision, Maintenance, and Upgrading of Facilities and Services Supported by Federal Universal Service Funding (ILEC and CLEC combined)

Operating Expenses	\$74,248,851
Plant Additions	24,000,000



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June 29, 2012

Ms. Marlene H. Dortch  
Office of the Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street SW  
Washington, D.C. 20554

Received & Inspected  
JUL 02 2012  
FCC Mail Room

Ms. Karen Majcher  
Vice President – High Cost Low Income Division  
Universal Service Administrative Company  
2000 L Street NW, Suite 200  
Washington, D.C. 20036

RE: WC Docket No. 10-90: Annual Reporting Requirements for High-Cost Recipients §54.313 (a)(1) through (a)(6) and (h)

Pursuant to Section 54.313(a)(2) through (a)(6) and (h) of the Federal Communications Commission's rules, enclosed are the 2012 annual reporting requirements and certifications for Union Telephone Company, Study Area Code 512297. Union Telephone Company is a state-designated ETC, and as such, is submitting to the Commission relevant information from reports it files with its state commission for §54.313 (a)(2) through (a)(4).

Should you have any questions, please contact me via email at [creno@unionwireless.com](mailto:creno@unionwireless.com) or by phone at (307) 782-6131.

Sincerely,

Christopher Reno  
Director of Accounting

Enclosures

Cc: Wyoming Public Utilities Commission  
Colorado Public Utilities Commission  
Utah Public Utilities Commission

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Union Telephone Company**

**PROGRESS REPORTING – §54.313 (a)(1)**

A progress report on five-year service quality improvement plan pursuant to §54.202(a), including maps detailing its progress towards meeting its plan targets, an explanation of how much universal service support was received and how it was used to improve service quality, coverage, or capacity, and an explanation regarding any network improvement targets that have not been fulfilled in the prior calendar year. The information shall be submitted at the wire center level or census block as appropriate;

**Union continues to maintain our wireline facilities to result in the best possible customer experience throughout our network. We are continually testing and replacing bad or damaged cable sections in the network. As part of this effort, Union continues to replace less reliable legacy “air core” cable in the markets acquired from US West with higher quality filled cable. Union is continuing to upgrade the network as it receives new customer service requests. The majority of our capital investments in the landline company are for new subdivisions and for emerging commercial enterprises. Union will continue to work with these customers to quickly and effectively provide capacity for their needs.**

**Union spends a significant amount of time upgrading and installing equipment to support our customers’ broadband capacity needs. The demand for high speed data continues to grow and Union finds that it is challenging to keep up with the equipment outlays for these capacity needs. Union is continually adding DSLAM’s to remote areas to extend our high speed footprint to the more rural regions of our service area. Union is also looking into newer technologies such as SHDSL, ADSL and VDSL that will improve system performance over existing infrastructure. We are also adding strategic fiber projects to off load copper infrastructure and microwave capacity.**

**An area of increased concern is the central backbone network which provides the circuits for the ever increasing voice and data demands of our customers. Union is continuously increasing the capacity while also improving the network redundancy of the circuits to all regions of our network. Union is installing cable and fiber into regions that require additional service and capacity to provide reliable service to our customers. In addition to the cable and fiber installations, Union also continues to install carrier grade redundant microwave in order to reduce the overall plant investment. It is much more cost effective to invest in a microwave backbone in order to provide service to our rural low population density areas.**

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Union Telephone Company**

**In order to have a reliable network it is necessary to invest in the core network and outside plant components which will incur higher ongoing expenses. These investments are also necessary to provide access to telecommunications and information services including interexchange services and new advanced services. It is the company's goal to make these services reasonably comparable to those provided in urban areas and available at rates reasonably comparable to rates charged for similar services in urban areas. Without the benefit of high cost support, Union would not be able to make these investments and provide the quality of service it currently does.**

**Please see Attachment 1 reviewing the amount of Federal High-Cost Support received in 2011 and similarly the expenditures supported by the Federal funding. Also attached, Attachment 2 details planned capital expenditures for both Union Telephone and Union Cellular. The company continues to invest in its network to both expand services and update and upgrade its technology. We are starting to research a soft switch to replace our DMS platform. Along with the new switch, Union will continue to invest in deploying fiber optics in the backbone of the network and the latest DSLAMs available at the edge of the network. A new billing system will begin to be installed in 2012 with full implementation in 2013. Completion of Phase III E911 and new software is anticipated for 2013/2014. Computers, vehicles, and test gear expenditures are also planned.**



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Detailed information on any outage in the prior calendar year, as that term is defined in 47 C.F.R. 4.5, of at least 30 minutes in duration for each service area in which an eligible telecommunications carrier is designated for any facilities it owns, operates, leases, or otherwise utilizes that potentially affect (i) At least ten percent of the end users served in a designated service area; or (ii) A 911 special facility, as defined in 47 C.F.R. 4.5(e). 47 C.F.R. §54.313(a)(2).

Detailed Outage Information for 2011						
Date of Outage	Time of Outage	Description of Outage and Resolution	Particular Services Affected	Geographic Areas Affected	Steps Taken to Prevent Future Recurrences	Number of Customers Affected

**There were no outages to report for Union Telephone Company in 2011.**



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**NUMBER OF COMPLAINTS PER 1,000 CONNECTIONS – §54.313(a)(4)**

The number of complaints per 1,000 connections (fixed or mobile) in the prior calendar year.

**During calendar year 2011, Union Telephone Company received 0 complaints per 1,000 working access lines.**

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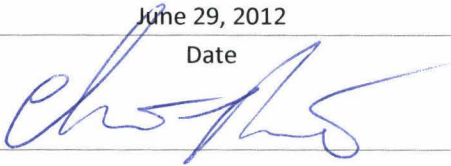
I am authorized to provide this certification on behalf of the Company. I hereby certify that the Company is in compliance with applicable service quality standards and consumer protection rules.

Executed on

June 29, 2012

Date

Signature



Christopher Reno

Printed/Typed Name

**Annual Reporting for High-Cost Recipients  
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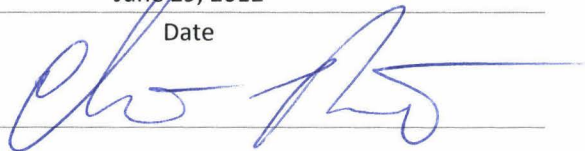
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**ADDITIONAL VOICE RATE DATA – §54.313(h)**

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**As of June 1, 2012, Union Telephone Company did not have any rates for residential local service, as well as state fees as defined pursuant to §54.318(e), that are below the local urban rate floor as defined in §54.318.**

# UNION TELEPHONE COMPANY (ILEC AND CLEC)

## Attachment 1

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Operating Expenses	\$74,248,851
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JUL 02 2012

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**Attachment 2 - Site Forecast**

YEAR	SITENAME	COUNTY	STATE	COST
2012	Douglas Pass	Converse	WY	239,309.77
2012	Jasper Mountain	Grand	CO	200,000.00
2012	Rock Springs Foothill	Sweetwater	WY	144,309.77
2012	Muddy Pass	Jackson	CO	475,000.00
2012	Plumbago	Albany	WY	300,000.00
2012	Owl Ridge	Jackson	CO	325,000.00
2012	Wagonhound COW	Carbon	WY	250,000.00
2012	Dutch John Mountain	Daggett	UT	350,000.00
2012	Wind River Canyon COW	Fremont	WY	250,000.00
2012	Rock Springs North COW	Sweetwater	WY	250,000.00
2013	Applegate/South Fork	Natrona	WY	194,309.77
2013	Barber Creek	Crook	WY	239,309.77
2013	Beverly	Natrona	WY	300,000.00
2013	Devoe	Natrona	WY	239,309.77
2013	Evan's Draw	Crook	WY	194,309.77
2013	Hay Draw/Edgerton	Natrona	WY	239,309.77
2013	Ridgecrest	Natrona	WY	133,809.77
2013	Schoonover	Crook	WY	239,309.77
2013	Story	Crook	WY	239,309.77
2013	Borgialli	Sheridan	WY	239,309.77
2013	Chugwater	Platte	WY	208,809.77
2013	Cow Hollow	Natrona	WY	239,309.77
2013	Hells Half Acre	Natrona	WY	239,309.77
2013	Jackson South	Teton	WY	144,309.77
2013	Lake	Park	WY	164,309.77
2013	Stone Ranch	Natrona	WY	194,309.77
2013	Big Piney Water tank	Sublette	WY	148,809.77
2013	Fish Haven	Bear Lake	ID	133,809.77
2013	Montpelier	Bear Lake	ID	129,309.77
2013	Sheridan Love	Sheridan	WY	300,000.00
2013	Dubois Fire Station	Fremont	WY	275,000.00
2013	Q Ranch	Carbon	WY	125,000.00
2013	Medicine Bow Water Tank	Carbon	WY	125,000.00
2013	Sheridan West	Sheridan	WY	300,000.00
2013	Rosie Ridge	Teton	WY	300,000.00
2013	Gillette East	Campbell	WY	150,000.00
2013	Snowy Range - New Build	Albany	WY	300,000.00
2013	Cheyenne Frontier Days Grandstand	Laramie	WY	150,000.00
2013	Evansville	Natrona	WY	193,809.77
2013	Elk Plaza	Park	WY	164,309.77
2013	Ross Plateau	Teton	WY	425,000.00
2013	Cheyenne Sun Valley	Laramie	WY	148,809.77
2013	Quartz SBA	Mesa	CO	125,000.00

2013	Sheep SBA	Delta	CO	125,000.00
2013	Ducray SBA	Mesa	CO	125,000.00
2013	Handi Pawn SBA	Montrose	CO	125,000.00
2013	Olathe 2 SBA	Montrose	CO	125,000.00
2013	Alkalai Creek SBA	Delta	CO	125,000.00
2013	Huff SBA	Delta	CO	125,000.00
2013	Rifle SBA	Garfield	CO	125,000.00
2014	Jackson Airport	Teton	WY	133,809.77
2014	Jackson Parkway	Teton	WY	148,809.77
2014	Riverton Battalion	Fremont	WY	300,000.00
2014	Rawlins City Hall	Carbon	WY	140,000.00
2014	Bar Nunn	Natrona	WY	159,309.77
2014	Campbell County Airport	Campbell	WY	239,309.77
2014	Ranchester	Crook	WY	239,309.77
2014	Red Canyon	Fremont	WY	239,309.77
2014	Statue High Point	Natrona	WY	194,309.77
2014	Ullery	Natrona	WY	239,309.77
2014	Hayden East	Routt	CO	163,809.77
2014	Tow Creek	Routt	CO	163,809.77
2014	Bonanza	Moffat	CO	133,809.77
2014	Deadman	Sweetwater	WY	133,809.77
2014	Estes Park	Larimer	CO	129,309.77
2014	Marvine	Rio Blanco	CO	133,809.77
2014	Narrows Rebuilt into 80'	Lincoln	WY	239,309.77
2014	Pinedale Capacity	Sublette	WY	148,809.77
2014	Preston/Cherryville Flat	Franklin	ID	163,809.77
2014	Red Rocks Pass	Bear Lake	ID	163,809.77
2014	Shute Creek	Lincoln	WY	133,809.77
2014	Uinta County Youth Camp	Uinta	WY	208,809.77
2014	Winkleman Dome Replacement	Fremont	WY	300,000.00
2014	Harper	Albany	WY	275,000.00
2014	Pavillion	Fremont	WY	300,000.00
2014	Wilderness DTE	Fremont	WY	150,000.00
2014	Superior	Sweetwater	WY	200,000.00
2014	Jackson Lake Lodge	Teton	WY	125,000.00
2015	Greybull North	Big Horn	WY	300,000.00
2015	Redlands	Mesa	CO	125,000.00
2015	Ouray	Ouray	CO	300,000.00
2015	Rangely DT	Rio Blanco	CO	300,000.00
2015	Wright - New Build	Campbell	WY	300,000.00
2015	Lander South - New Build	Fremont	WY	300,000.00
2015	Kinnear Fire Station - New Build	Fremont	WY	300,000.00
2015	Union Pass Fire Station - New Build	Fremont	WY	300,000.00
2015	Pine Haven - New Build	Crook	WY	300,000.00
2015	Hulett - New Build	Crook	WY	300,000.00
2015	Seminole Marina - New Build	Carbon	WY	300,000.00
2015	Sweetwater Station - New Build	Fremont	WY	300,000.00

2015	Wolford Alt	Grand	CO	400,000.00
2015	Laramie NE	Albany	WY	275,000.00
2015	Archibald	Park	WY	300,000.00
2015	Buffalo DT	Johnson	WY	275,000.00
2015	Beaver Mountain	Rich	UT	350,000.00
2015	Wyoming Boys Home	Washakie	WY	300,000.00
2015	Thermopolis NE	Hot Springs	WY	300,000.00
2015	Cody Rec Center	Park	WY	150,000.00
2015	Cedar Mountain (Cody)	Park	WY	350,000.00
2015	Granger	Sweetwater	WY	275,000.00
2015	Ethete	Fremont	WY	300,000.00
2015	Douglas DT	Converse	WY	225,000.00
2015	Magnetic Mountain	Rio Blanco	CO	350,000.00
2015	Grand Junction Capacity 1	Mesa	CO	150,000.00
2015	Grand Junction Capacity 2	Mesa	CO	150,000.00
2015	Fuita	Mesa	CO	300,000.00
2015	Walden	Jackson	CO	300,000.00
2015	Montrose	Montrose	CO	300,000.00
2015	Delta	Delta	CO	300,000.00

24,676,320.11

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Report of Independent Auditors  
and Financial Statements

**Union Telephone  
Company, Inc.**

December 31, 2011 and 2010

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

## **CONTENTS**

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	<b>PAGE</b>
<b>REPORT OF INDEPENDENT AUDITORS</b>	<b>1-2</b>
<b>FINANCIAL STATEMENTS</b>	
Balance sheets	3-4
Statements of income	5
Statements of comprehensive income	6
Statements of stockholders' equity	7
Statements of cash flows	8-9
Notes to financial statements	10-23

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Union Telephone Company, Inc.

We have audited the accompanying balance sheets of Union Telephone Company, Inc. (the Company) as of December 31, 2011 and 2010, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Union Telephone Company, Inc. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



**REPORT OF INDEPENDENT AUDITORS**  
**(continued)**

In accordance with *Government Auditing Standards*, we have also issued a report dated February 17, 2012, on our consideration of Union Telephone Company, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Moss Adams LLP

Spokane, Washington  
February 17, 2012

**UNION TELEPHONE COMPANY, INC.**  
**BALANCE SHEETS**

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**ASSETS**

	December 31,	
	2011	2010
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,978,381	\$ 7,662,936
Subscriber accounts receivable, less allowance for doubtful accounts of \$73,193 in 2011 and \$89,037 in 2010	2,264,964	1,990,465
Settlements and access accounts receivable	6,533,441	5,231,816
Other accounts receivable	78,404	270,668
Income tax refunds receivable	3,712,242	1,998,184
Material and supplies	7,625,616	11,362,296
Deferred income taxes, current portion	-	66,415
Other current assets	3,614,443	3,687,348
<b>Total current assets</b>	<b>26,807,491</b>	<b>32,270,128</b>
<b>NONCURRENT ASSETS</b>		
Investment in affiliates	3,415,741	3,578,047
Investment in nonaffiliates	3,141,227	3,083,433
Intangible assets	19,669,267	19,669,267
Note receivable	727,099	726,851
Other noncurrent assets	9,501,338	8,781,346
	<b>36,454,672</b>	<b>35,838,944</b>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Wireless and wireline plant in service	249,234,946	239,601,291
Television and Internet plant in service	975,861	1,194,513
Plant under construction	19,512,577	16,191,128
	269,723,384	256,986,932
Less accumulated depreciation	147,216,897	142,659,633
	<b>122,506,487</b>	<b>114,327,299</b>
	<b>\$ 185,768,650</b>	<b>\$ 182,436,371</b>

**UNION TELEPHONE COMPANY, INC.**  
**BALANCE SHEETS**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	December 31,	
	2011	2010
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 3,164,750	\$ 4,595,890
Advanced billing and customer deposits	1,258,913	1,403,424
Current maturities of long-term debt	5,167,166	5,155,348
Interest rate swap liability	584,372	937,385
Other accrued taxes	345,270	404,387
Other accrued liabilities	3,091,305	2,974,971
Deferred income taxes, current portion	18,753	-
Accrued interest payable	22,999	19,063
	<u>13,653,528</u>	<u>15,490,468</u>
<b>LONG-TERM DEBT</b>	<u>31,932,619</u>	<u>34,107,866</u>
<b>OTHER LIABILITIES AND DEFERRED CREDITS</b>		
Deferred income taxes	25,440,157	20,361,708
Other deferred credits	410,023	356,535
	<u>25,850,180</u>	<u>20,718,243</u>
<b>STOCKHOLDERS' EQUITY</b>		
Capital stock, common, no par value; 1,000,000 shares authorized, 40,500 shares issued and outstanding in 2011 and 2010	20,250	20,250
Retained earnings	115,300,790	113,298,218
Accumulated other comprehensive loss	(408,717)	(618,674)
Treasury stock, at cost, 1,400 shares	(580,000)	(580,000)
	<u>114,332,323</u>	<u>112,119,794</u>
	<u>\$ 185,768,650</u>	<u>\$ 182,436,371</u>

**UNION TELEPHONE COMPANY, INC.**  
**STATEMENTS OF INCOME**

	Years Ended December 31,	
	2011	2010
Operating revenues		
Wireless	\$ 57,726,193	\$ 54,561,149
Wireline	10,413,673	10,302,010
Internet	785,177	754,814
Television	13,030	16,257
Miscellaneous	533,472	434,450
Uncollectible	(1,337,417)	(803,512)
Total operating revenues	68,134,128	65,265,168
Operating expenses		
Plant specific operations	14,862,090	13,974,784
Plant nonspecific operations	9,208,970	9,148,917
Depreciation	14,648,805	15,221,486
Customer operations	8,922,025	6,886,592
Corporate operations	6,553,419	5,810,676
Other operating taxes	520,275	582,336
Other nonregulated	135,873	187,834
Wireless resale equipment	8,694,864	5,550,089
Wireless commissions	855,634	1,099,630
Total operating expenses	64,401,955	58,462,344
Net operating income	3,732,173	6,802,824
Nonoperating income (expense)		
Interest and dividend income	37,773	60,081
Allowance for funds used during construction	508,575	329,228
Interest expense	(2,267,662)	(2,645,988)
Other nonoperating income (expense)	(2,260,192)	(1,560,781)
Goodwill impairment	-	(3,441,736)
Income from investment in affiliates	3,509,675	3,086,731
Total nonoperating expense	(471,831)	(4,172,465)
Income before income taxes	3,260,342	2,630,359
Income taxes	1,203,290	741,611
Net income	\$ 2,057,052	\$ 1,888,748

**UNION TELEPHONE COMPANY, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**

---

	Years Ended December 31,	
	2011	2010
Net income	\$ 2,057,052	\$ 1,888,748
Gain (loss) from fair value adjustment to interest rate swap	353,013	(484,742)
Income tax effect	<u>(143,056)</u>	<u>164,812</u>
Comprehensive income	<u><u>\$ 2,267,009</u></u>	<u><u>\$ 1,568,818</u></u>

**UNION TELEPHONE COMPANY, INC.**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**

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	Capital Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2009	\$ 20,350	\$ 13,250	\$ 111,921,264	\$ (298,744)	\$ (580,000)	\$ 111,076,120
Fair value adjustment to interest rate swap, net of tax	-	-	-	(319,930)	-	(319,930)
Stock retirement	(100)	(13,250)	(337,689)	-	-	(351,039)
Dividends	-	-	(174,105)	-	-	(174,105)
Net income 2010	-	-	1,888,748	-	-	1,888,748
Balance, December 31, 2010	20,250	-	113,298,218	(618,674)	(580,000)	112,119,794
Fair value adjustment to interest rate swap, net of tax	-	-	-	209,957	-	209,957
Dividends	-	-	(54,480)	-	-	(54,480)
Net income 2011	-	-	2,057,052	-	-	2,057,052
Balance, December 31, 2011	<u>\$ 20,250</u>	<u>\$ -</u>	<u>\$ 115,300,790</u>	<u>\$ (408,717)</u>	<u>\$ (580,000)</u>	<u>\$ 114,332,323</u>



**UNION TELEPHONE COMPANY, INC.**  
**STATEMENTS OF CASH FLOWS**

	<u>Years Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,057,052	\$ 1,888,748
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	14,648,805	15,221,486
Goodwill impairment	-	3,441,736
Deferred income tax	5,020,560	2,357,344
Income from investment in affiliates	(3,509,675)	(3,086,731)
Noncash patronage dividends	(138,087)	(162,855)
Increase in cash surrender value of life insurance	(834,189)	(1,321,366)
Allowance for funds used during construction	(508,575)	(329,228)
Change in assets and liabilities		
Accounts receivable	(1,383,860)	(1,666,297)
Material and supplies	3,736,680	(439,643)
Other current assets	72,905	(605,173)
Other noncurrent assets	113,949	(5,923)
Accounts payable and accrued expenses	(1,431,140)	3,207,412
Advance billing and customer deposits	(144,511)	300,213
Federal income tax receivable	(1,714,058)	2,177,029
Other accrued taxes	(59,117)	21,463
Other accrued liabilities and deferred credits	173,759	1,543,793
Net cash from operating activities	<u>16,100,498</u>	<u>22,542,008</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net acquisition of property, plant, and equipment	(22,387,385)	(20,016,118)
Proceeds from disposal of property, plant, and equipment	67,967	23,563
Proceeds from patronage dividends	80,293	59,186
Partnership distributions	3,671,981	3,166,666
Net cash from investing activities	<u>(18,567,144)</u>	<u>(16,766,703)</u>

**UNION TELEPHONE COMPANY, INC.**  
**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2011	2010
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	\$ (5,163,429)	\$ (5,152,015)
Proceeds from issuance of long-term debt	3,000,000	-
Stock repurchase and retirement	-	(351,039)
Dividends paid to parent company	(54,480)	(174,105)
Net cash from financing activities	(2,217,909)	(5,677,159)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(4,684,555)	98,146
<b>CASH AND CASH EQUIVALENTS at beginning of year</b>	7,662,936	7,564,790
<b>CASH AND CASH EQUIVALENTS at end of year</b>	<u>\$ 2,978,381</u>	<u>\$ 7,662,936</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for		
Interest	<u>\$ 2,041,915</u>	<u>\$ 2,394,138</u>
Income taxes	<u>\$ -</u>	<u>\$ 270,842</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Net assets acquired from dissolution of joint venture	<u>\$ -</u>	<u>\$ 427,375</u>
Fair value adjustment to interest rate swap, net of tax	<u>\$ 209,957</u>	<u>\$ 319,930</u>

**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 – Summary of Significant Accounting Policies**

**Description of entity** – Union Telephone Company, Inc. (the Company) is a telecommunications company located in Mountain View, Wyoming. The Company provides telephone and cellular services in parts of Wyoming, Colorado, Idaho, and Utah. Cable television and Internet services are also provided to several small communities in Wyoming. The Company is wholly-owned by Union Holding Corporation.

**Accounting policies** – The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to regulated public utilities. Such accounting principles are consistent, in all material respects, with accounting prescribed by the Federal Communications Commission (FCC).

**Accounting estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the fair value of goodwill and intangible assets, depreciation expense, allowances for doubtful accounts, interest rate swaps, and interstate access revenues related to the carrier common line revenue pool administered by National Exchange Carrier Association (NECA). Actual results could differ from those estimates.

**Cash and cash equivalents** – Cash and cash equivalents are defined as short-term, highly liquid investments that were purchased with an original maturity of three months or less and are readily convertible into cash. Cash equivalents are stated at cost and primarily consist of money market savings accounts.

**Concentration of risk** – The Company's cash and cash equivalents are held by several banking institutions. At various times throughout the year, cash balances exceeded federally insured limits. A possible loss exists for those amounts in excess of \$250,000.

In 2011, the Company received approximately \$10.3 million, or 15% of its 2011 operating revenue and \$10.0 million, or 15% of its 2010 operating revenue from the Federal Universal Service Fund.

## **UNION TELEPHONE COMPANY, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 1 – Summary of Significant Accounting Policies (continued)**

**Valuation of accounts receivable** – Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Company reviews the collectability of accounts receivable annually based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 30 days after issuance of the subscriber bill. Receivables from other exchange carriers are typically outstanding 30 to 60 days before payment is received. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Company management believes it has established adequate reserves for any risk associated with these receivables.

**Material and supplies** – Material and supplies consist of construction materials, cellular handsets, and accessories held for resale. Material and supplies are valued at the lower of average cost or market.

**Investment in affiliates** – The Company accounts for its investment in Wasatch Utah RSA No. 2 Limited Partnership, a one-third owned affiliate, by the equity method of accounting under which the proportionate share of net income or loss is recognized as income or loss in the Company's income statement and added to or subtracted from the investment accounts. Under the equity method of accounting, dividends or returns of capital reduce the investment balance.

**Investments in nonaffiliates** – These investments are CoBank participation certificates and patronage capital from other companies and are carried at cost.

**Investment income - patronage** – CoBank, a primary lender for the Company, is a cooperative that is owned and controlled by its customers. Each customer borrowing from the bank shares in the bank's net income through payment of patronage refunds. Approximately 40% to 60% of patronage refunds are received in cash, with the balance in CoBank stock. Patronage stock is redeemable at its face value for cash after the related debt is paid off. Total patronage refunds were \$91,869 and \$118,867 as of December 31, 2011 and 2010, respectively, and are reflected in the income statement as a reduction of interest expense.

**Property, plant, and equipment** – Property, plant, and equipment are stated at cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of maintenance and repairs is charged to operating expenses. The Company records as income and capitalizes as a cost of construction the cost of financing large construction projects spanning a period greater than two months. The Company uses a weighted-average interest rate based on total Company long-term debt.

**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 – Summary of Significant Accounting Policies (continued)**

Property, plant, and equipment are depreciated using straight-line methods over their estimated useful lives, generally ranging from 3 to 33 years. In accordance with composite group depreciation methodology, when a portion of the Company's depreciable property, plant, and equipment is retired in the ordinary course of business, the gross book value is charged to accumulated depreciation.

**Income taxes** – Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for future deductible temporary differences and deferred tax liabilities are recognized for future taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company records uncertain tax positions if the likelihood the position will be sustained upon examination is less than 50%. As of December 31, 2011 and 2010, the Company had no accrued amounts related to uncertain tax positions. The Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2008.

**Revenue recognition** – Monthly service fees derived from wireless, local wireline, Internet, and television are billed one month in advance, but recognized in the month that service is provided.

Usage sensitive revenues such as wireless roaming, wireless airtime, access (revenues earned for originating/terminating long distance calls), and long distance are generally billed as a per-minute charge. Although these revenues are billed in arrears, an estimate of unbilled revenues is accrued in the month service is provided.

Interstate access revenues also include settlements based on the Company's participation in the carrier common line revenue pool administered by the NECA. These revenues are determined by separations and interstate access cost studies that are prepared annually. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations. Additionally, the studies are subject to a 24-month pool adjustment period and final review and acceptance by the pool administrators. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 2011 and 2010.

The Company's wireless and wireline universal service support revenue is intended to compensate the Company for the high cost of providing rural telecommunications service. Universal service support revenue includes funds received for high cost loop support (HCLS), interstate common line support (ICLS), local switching support (LSS), and other miscellaneous programs. Wireline support revenues are based on the Company's relative level of operating expense and plant investment. Wireless support revenues are based on the per line support received by the incumbent wireline provider.

## **UNION TELEPHONE COMPANY, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 1 – Summary of Significant Accounting Policies (continued)**

**Regulation** – The Company's services are subject to rate regulation as follows:

- Local telephone and intrastate access revenues are regulated by the State Public Utilities Commissions in Wyoming, Utah, and Colorado.
- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Universal service support revenues are administered by Universal Service Administrative Company (USAC), based on rules established by the FCC.

Other sources of revenues are not rate regulated, and include wireless, Internet, long distance, equipment sales, television, directory, rents, and other incidental services.

Other nonregulated expenses are directly attributable to television, Internet, and other miscellaneous nonregulated services.

All other operating expenses and telecommunications plant are related to wireless and wireline revenues. These costs jointly relate to regulated and nonregulated services. For interstate access settlements, universal service support, rate case, and other regulatory purposes, the portion of these common costs related to nonregulated activities is removed in accordance with Part 64 of the FCC rules in order to ensure regulated revenues are based on costs of providing regulated services.

In October 2011, the FCC issued an order reforming Intercarrier Compensation and Universal Service Funding (USF) mechanisms and issued a Further Notice of Proposed Rulemaking (FNPRM) on long-term USF reform and transition timing. The order and FNPRM phase out support disbursed to competitive service providers under the current funding mechanism over a five-year period based on the amount of support received during 2011. The Company received \$7.2 million in USF support related to wireless operations during 2011 that will be subject to this phase out.

The order and FNPRM also introduce caps on capital expenditures and operating expenses recoverable from the USF from incumbent wireline operations and significantly reduce carrier access rates over an extended transition period.

Certain provisions of these rule changes have not been finalized while other provisions are being challenged in court. Management is monitoring the impacts of the reform on an ongoing basis and is planning on pursuing the new funding mechanisms put in place by the FCC, including Mobility I and Mobility II, to help replace the revenues subject to phase out.

**Advertising expenses** – The Company expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2011 and 2010, were \$2,675,590 and \$2,998,505, respectively.

**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 – Summary of Significant Accounting Policies (continued)**

**Subsequent events** – Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheets, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheets but arose after the balance sheet date and before the financial statements are available to be issued.

The Company has evaluated subsequent events through February 17, 2012, which is the date the financial statements are available to be issued.

**Note 2 – Investment in Affiliates**

The Company has a one-third interest in Wasatch Utah RSA No. 2 Limited Partnership. The partnership was formed to fund, establish, and provide cellular telecommunication services to customers within the Utah RSA No. 2. The partnership began providing services to customers in 1990.

During 2009 and early 2010, the Company had a joint venture agreement with Verizon Wireless for the operation of a cell site on Signal Mountain in Wyoming (SMJV). The joint venture was dissolved on August 31, 2010. The dissolution agreement resulted in the Company assuming ownership of all SMJV assets and liabilities in exchange for allowing Verizon to use the site without paying rent for nine years.

The carrying value of the Wasatch Utah RSA No. 2 Limited Partnership investment using the equity method of accounting is as follows:

	<u>2011</u>	<u>2010</u>
Cash investment	\$ 995,982	\$ 995,982
Prior years' accumulated net income	28,960,574	25,897,337
Union Telephone Company, Inc.'s share of net income	3,509,675	3,063,237
Cumulative dividends received	<u>(30,050,490)</u>	<u>(26,378,509)</u>
Total	<u><u>\$ 3,415,741</u></u>	<u><u>\$ 3,578,047</u></u>

**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 2 – Investment in Affiliates (continued)**

The assets, liabilities, equity, and operations of the Company's investments in the Wasatch Utah RSA No. 2 Limited Partnership are as follows at December 31:

	Wasatch Utah RSA No. 2 LP	
	2011	2010
Assets	<u>\$ 12,313,063</u>	<u>\$ 12,767,549</u>
Liabilities	<u>\$ 2,801,738</u>	<u>\$ 2,770,632</u>
Equity	<u>\$ 9,511,325</u>	<u>\$ 9,996,917</u>
Operating revenues	<u>\$ 33,385,798</u>	<u>\$ 27,781,171</u>
Operating expenses	<u>\$ 22,785,907</u>	<u>\$ 18,597,679</u>
Net income	<u>\$ 10,599,891</u>	<u>\$ 9,183,492</u>

**Note 3 – Investments in Nonaffiliates**

Investments in nonaffiliates are carried at cost as the shares do not have readily determinable fair values and consist of the following at December 31:

	2011	2010
CoBank participation certificates	\$ 2,735,389	\$ 2,723,813
Other	<u>405,838</u>	<u>359,620</u>
	<u>\$ 3,141,227</u>	<u>\$ 3,083,433</u>



**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 4 – Fair Value Measurements**

Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The Company follows a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following are the three levels of inputs that may be used to measure fair value:

<b>Level 1</b>	Quoted prices in active markets for identical assets or liabilities.
<b>Level 2</b>	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborate by observable market data for substantially the full term of the assets.
<b>Level 3</b>	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheets.

**Cash, cash equivalents, and cash surrender value** – The carrying amounts approximate fair value because of the short maturity of those instruments.

**Long-term debt** – The carrying amounts approximate fair value because the majority of the debt obligations carry a variable interest rate resulting in an interest rate that floats with the market. As disclosed in Note 8, the Company has two loans with fixed interest rates that are insignificant relative to its variable rate debt.

**Note 5 – Other Noncurrent Assets**

Other noncurrent assets consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Cash surrender value, life insurance policies	\$ 8,722,989	\$ 7,889,092
Miscellaneous noncurrent assets	<u>778,349</u>	<u>892,254</u>
	<u>\$ 9,501,338</u>	<u>\$ 8,781,346</u>

The cash surrender value of the life insurance policies is presented net of a policy loan with an outstanding balance of \$5,718,216 as of December 31, 2011.

# **UNION TELEPHONE COMPANY, INC.** **NOTES TO FINANCIAL STATEMENTS**

## **Note 6 – Intangible Assets and Goodwill**

In 1994, the Company acquired the assets of seven Qwest (formerly U.S. West) exchanges. The excess of the purchase price over the assets acquired has been recorded as goodwill. Goodwill was tested for impairment by comparing the fair value of the reporting unit to the carrying value. When the carrying value exceeds the fair value of the reporting unit, a second step is required to measure the amount of goodwill impairment. Management concluded the goodwill related to the acquisition of the Qwest exchanges was fully impaired during 2010 and recorded a loss in the amount of \$3,441,736 in the statements of income. Challenging economic conditions, restricted capital markets, the uncertainty of the landline operations as well as a conservative approach in financial forecasting led to the impairment. Fair value was determined using an income and market approach.

The Company holds wireless licenses issued by the FCC totaling \$19,669,267 as of December 31, 2011 and 2010. Management fully intends to renew the licenses as necessary, and there is no evidence to suggest the FCC will not approve the renewal. The wireless licenses are not amortized as these assets are deemed to be intangible assets with indefinite lives. Management has determined the fair value of the wireless licenses exceeds their carrying value, and no impairment loss was recorded as of December 31, 2011 or 2010.

## **Note 7 – Property, Plant, and Equipment**

Property, plant, and equipment, together with accumulated depreciation balances, consist of the following at December 31:

	Depreciable Life	Plant Account	Accumulated Depreciation	2011 Net Balance	2010 Net Balance
Wireless and wireline plant					
General support assets	3-33 years	\$ 78,478,427	\$ 35,090,208	\$ 43,388,219	\$ 40,617,432
Central office assets	3-10 years	148,926,265	93,698,587	55,227,678	52,335,714
Cable and wire facilities assets	5-25 years	21,680,507	17,729,775	3,950,732	4,701,560
Other assets	5-22 years	149,747	149,747	-	-
Plant under construction	-	19,512,577	-	19,512,577	16,191,128
		<u>268,747,523</u>	<u>146,668,317</u>	<u>122,079,206</u>	<u>113,845,834</u>
Television and Internet plant					
Television	4-20 years	-	-	-	856
Internet	10 years	712,927	391,396	321,531	392,824
Other	5 years	262,934	157,184	105,750	87,785
		<u>975,861</u>	<u>548,580</u>	<u>427,281</u>	<u>481,465</u>
		<u>\$ 269,723,384</u>	<u>\$ 147,216,897</u>	<u>\$ 122,506,487</u>	<u>\$ 114,327,299</u>

**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 8 - Long-Term Debt**

Long-term debt is as follows as of December 31:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2011</u>	<u>2010</u>
Rural Utilities Services (RUS)	7.0% - 7.5% fixed	2014 - 2021	\$ 1,099,785	\$ 1,263,214
National Bank for Cooperatives (CoBank)	3.31 - 3.63% variable	2020	<u>36,000,000</u>	<u>38,000,000</u>
			37,099,785	39,263,214
Less current portion			<u>5,167,166</u>	<u>5,155,348</u>
Long-term portion			<u>\$ 31,932,619</u>	<u>\$ 34,107,866</u>

As of December 31, 2011 and 2010, there were unadvanced funds on the CoBank debt of \$13,993,758.

Substantially all assets of the Company are pledged as collateral on this debt. The loan agreements with RUS contain provisions restricting the payment of dividends and the maintenance of a minimum times interest earned ratio until the note balances are paid in full.

The loan agreements with CoBank contain provisions and restrictions pertaining to, among other things, limitations on additional debt, distributions of dividends to stockholders, capital expenditures, minimum subscriber requirement, and defined amounts related to the Company's total leverage, ratio equity to assets ratio, earnings before interest, taxes, depreciation, and amortization and debt service coverage ratio. Interest on the above debt was \$2,045,851 and \$2,381,325 in 2011 and 2010, respectively.

Maturities of long-term debt obligations for the five years following December 31, 2011, are as follows:

2012	\$ 5,167,166
2013	5,178,868
2014	5,191,388
2015	5,126,316
2016	5,135,158
Later years	<u>11,300,889</u>
	<u>\$ 37,099,785</u>

## **UNION TELEPHONE COMPANY, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 9 – Derivative Instruments and Hedging Activities**

The Company uses variable-rate debt to finance its operations and these debt obligations expose the Company to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of a portion of its interest payments. To meet this objective, management periodically enters into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps change the variable-rate cash flow exposure on the debt obligations to fixed cash flows. The Company does not enter into derivative instruments for speculative purposes. Under the terms of the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with variable-rate debt obligations are reported in accumulated other comprehensive loss.

#### **Note 10 – Lease Agreements**

The Company leases land, buildings, and numerous land sites for wireless and microwave equipment. Leases are both cancelable and noncancelable operating leases with numerous entities. The lease terms vary, and management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases. The annual rental expense under the lease agreements was \$2,354,472 and \$2,078,554 in 2011 and 2010, respectively.

The following is a schedule of future minimum lease payments for the above operating leases as of December 31, 2011:

2012	\$ 2,621,209
2013	2,887,947
2014	3,154,684
2015	3,421,422
2016	3,688,160

**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 11 – Income Taxes**

The components of the provision for income tax (benefit) expense are as follows for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Current		
Federal	\$(3,778,075)	\$(1,387,259)
State	(39,195)	(228,474)
Deferred		
Federal	<u>5,020,560</u>	<u>2,357,344</u>
	<u><u>\$ 1,203,290</u></u>	<u><u>\$ 741,611</u></u>

The provision for income taxes differs from the amount computed by applying the current statutory federal income tax rate to earnings before taxes due to the effects of state taxes (net of federal benefit), nondeductible items, nontaxable items, and prior year over or under accruals.

The income tax expense is classified as follows for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Operating income taxes	\$ 536,740	\$ 181,585
Nonoperating income taxes	417,328	353,853
Nonregulated income taxes	<u>249,222</u>	<u>206,173</u>
	<u><u>\$ 1,203,290</u></u>	<u><u>\$ 741,611</u></u>

**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 11 – Income Taxes (continued)**

The components of the net deferred tax asset (liability) recorded in the accompanying balance sheets at December 31 are:

	<u>2011</u>	<u>2010</u>
Current deferred tax asset (liability)		
Accrued employee benefits	\$ 778,750	\$ 856,675
Allowance for doubtful accounts	24,886	30,271
Prepaid expenses	<u>(822,389)</u>	<u>(820,531)</u>
Total current deferred tax	<u>(18,753)</u>	<u>66,415</u>
Noncurrent deferred tax asset (liability)		
Tax amortization and depreciation greater than book	(25,213,700)	(20,289,764)
Utah RSA Partnership cumulative differences	(1,062,708)	(871,972)
State net operating loss carryforwards	148,832	54,962
Charitable contribution carryforwards	62,139	32,944
Capital credit adjustments	(60,020)	(44,306)
Fair value adjustment on interest rate swap	175,655	318,711
Aid to construction	<u>509,645</u>	<u>437,717</u>
Total noncurrent deferred tax	<u>(25,440,157)</u>	<u>(20,361,708)</u>
Net deferred tax liabilities	<u><u>\$ (25,458,910)</u></u>	<u><u>\$ (20,295,293)</u></u>

The Company has an income tax receivable of \$3,712,242 and \$1,998,184 as of December 31, 2011 and 2010, respectively.

The Company has the following net operating loss carryforwards as of December 31, 2011:

Colorado	\$ 1,957,398
Idaho	23,839
Utah	939,872

These losses expire in varying amounts beginning in 2024.

**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 12 – Operating Revenue**

Wireline and wireless revenues consist of the following:

	<u>2011</u>	<u>2010</u>
Wireless		
Customer	\$ 24,007,029	\$ 20,950,036
Roaming	24,698,257	23,739,787
Wireless equipment sales	1,821,815	2,678,820
Universal service support - federal	<u>7,199,092</u>	<u>7,192,506</u>
Total wireless revenues	<u>\$ 57,726,193</u>	<u>\$ 54,561,149</u>
Wireline		
Customer	\$ 3,178,907	\$ 3,422,392
Interstate intercarrier revenue	1,911,737	1,870,028
Intrastate intercarrier revenue	779,388	749,868
Universal service support - federal	3,054,245	2,784,030
Universal service support - state	<u>1,489,396</u>	<u>1,475,692</u>
Total wireline revenues	<u>\$ 10,413,673</u>	<u>\$ 10,302,010</u>

Access revenues are classified above as follows:

- Customer revenues include end user charges such as the Subscriber Line Charge (SLC), the Federal Universal Service Charge (FUSC), and special access revenues from retail customers.
- Federal universal service support includes amounts received from the universal service fund for HCLS, ICLS, and LSS.
- All remaining access charge and settlement revenue is classified as intercarrier revenue.

**Note 13 – Employee Profit Sharing and Trust**

The Company sponsors a qualified 401(k) plan (the Plan) covering all employees who have reached 21 years of age with one year or more of service. The Plan provides for discretionary employer contributions and a mandatory matching of 25% of employees' contributions limited to 4% of basic annual compensation. Participants' interest become fully vested after five years of participation in the Plan and may be withdrawn upon termination or upon attaining age 65, whichever occurs first. The Company's matching and discretionary contributions totaled \$152,727 and \$136,930 for the years ended December 31, 2011 and 2010, respectively.

**UNION TELEPHONE COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 14 - Related Party Transactions**

During 2009, the Company issued a note receivable to one of its stockholders for \$707,270. Interest accrues and is compounded at an annual rate of 0.41%; unpaid interest is added to the outstanding principal balance each year on the anniversary of the note in February. The outstanding principal is due and payable on February 24, 2013, with no scheduled principal payments due in the interim.